



California Public Employees' Retirement System
Executive Office
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (877) 249-7442
Phone: (916) 795-3825 Fax: (916) 795-3410
www.calpers.ca.gov

October 10, 2011

The Honorable Mark Leno, Chair
Joint Legislative Budget Committee
1020 N Street Room 553
Sacramento, CA 95814

Dear Chairperson Leno:

The California Public Employees' Retirement System (CalPERS) Board of Administration is submitting its report regarding 2012 premiums and one-time savings as required by section 4.21 of Senate Bill 87, Chapter 33, Statutes of 2011.

The CalPERS Board of Administration approved a 2012 health rate package that will increase overall premiums by only 4.1 percent. This is compared to the latest national overall premium increase of 9 percent for 2011 as cited by the Kaiser Family Foundation.

HMO Plans

- Basic HMO plan premiums will increase an average of 5.3 percent.
- Medicare HMO plans will decrease an average of 0.9 percent.

PPO Plans

- Basic PPO plan premiums will increase an average of 3.0 percent.
- Medicare PPO plans will increase an average of 0.7 percent.

Association Plans

- Basic Association plan premiums will increase an average of 2.7 percent.
- Medicare Association plans will increase an average of 0.9 percent.

CalPERS is concerned about the increases in health care costs and recognizes the challenge that these costs present to the Legislature, the Governor and local governments. We were able to negotiate rate levels that will save \$104.4 million for the calendar year 2012 (our rate year). However, we fell short of the 2011-2012 State fiscal year target, in part because our rates for half of the 2011-2012 State fiscal year have already been established.

Each year, the Board of Administration carefully considers specific strategies that will reduce the premium costs by extracting costs from the system on a long-term basis and strategies that will result in one-time savings. Attachment 1 provides an accounting of on-going savings that CalPERS has generated since 2008.

As a result of our continued efforts to reduce health care costs for the State of California and our contracting public agencies, CalPERS has produced cumulative savings of over \$1.2 billion since 2008. Over the same period, CalPERS has achieved cumulative savings of \$587.3 million for the State's General and Special Funds, with on-going savings of \$197 million annually.

We will continue to pursue robust rate negotiations and partner with our health plans to minimize future rate increases and ensure CalPERS members have access to affordable, quality health care.

If you have any questions, please feel free to contact me at (916) 795-3818 or have your staff contact Mr. Doug McKeever, Chief of the Health Policy Research Division, at (916) 795-0767.

Sincerely,

A handwritten signature in cursive script that reads "Anne Stausboll".

ANNE STAUSBOLL
Chief Executive Officer

Enclosure

cc: Doug McKeever

CalPERS Health Program Savings

All Amounts in Millions

Total CalPERS Program Estimate						
Cost Reduction Initiatives	2008	2009	2010	2011	2012	Total Ongoing Annual Savings
Pharmacy Copay Changes			\$16.7	\$12.1	\$52.7	\$81.6
High Performance Provider Networks	\$46.5	\$4.0	\$7.9	\$10.6	\$7.2	\$76.4
Cost of Health Care Initiatives	\$8.0	\$10.7	\$11.3	\$11.0	\$16.3	\$57.3
HMO Service Area Reduction	\$26.9	\$3.3	\$2.8	\$3.0	\$3.2	\$39.1
Value Based Purchasing				\$19.2	\$11.0	\$30.2
Integrated Health Management Partnerships			\$15.5	\$9.1	\$5.0	\$29.6
Medical Copay Changes	\$29.5					\$29.5
Narrow Hospital Network	\$4.9	\$6.8	\$5.6	\$4.0	\$6.0	\$27.3
Health Plan Contract Extension		\$19.9				\$19.9
Medicare Advantage (GMA-PD)			\$10.5	\$1.0	\$1.9	\$13.4
Targeted Hospital Recontracting				\$7.2		\$7.2
Removal of Chiropractic Services			\$6.3			\$6.3
Regional Rating	\$0.9	\$0.8	\$0.9	\$0.9	\$1.0	\$4.5
New Savings In This Year (Total Program)	\$116.7	\$45.6	\$77.5	\$78.1	\$104.4	
Ongoing Annual Savings (Total Program)	\$116.7	\$162.3	\$239.7	\$317.8	\$422.2	\$422.2
Cumulative Savings (Total Program)	\$116.7	\$278.9	\$518.7	\$836.5	\$1,258.7	

State General Fund Portion Estimate ¹						
New Savings In This Year (State Only)	\$38.2	\$14.9	\$25.4	\$25.6	\$34.2	
Ongoing Annual Savings (State Only)	\$38.2	\$53.2	\$78.6	\$104.1	\$138.3	\$138.3
Cumulative Savings (State Only)	\$38.2	\$91.4	\$170.0	\$274.1	\$412.4	

State Special Funds Portion Estimate ²						
New Savings In This Year (State Only)	\$16.2	\$6.3	\$10.8	\$10.8	\$14.5	
Ongoing Annual Savings (State Only)	\$16.2	\$22.5	\$33.3	\$44.2	\$58.7	\$58.7
Cumulative Savings (State Only)	\$16.2	\$38.8	\$72.1	\$116.2	\$174.9	

¹In accordance with DOF methodology, the General Fund portion estimate of savings are calculated assuming 47% of State Active Employer Contribution (with CSU removed) plus 100% of State Retiree Employer Contribution (including a DOF targeted 3.5% growth applied to Retirees only) plus 100% of the State Employer Share of Medicare Part B Premium Reimbursement.

²In accordance with DOF methodology, the Special Funds portion estimate portion of savings are calculated assuming 53% of State Active Employer Contribution (with CSU removed).

Please note: The General Fund portions plus the Special Funds do not equal the CalPERS Total Program savings estimates, as also included in the Total Program are Public Agencies' related premium savings plus State Related (Active and Retiree) member shares of premium savings.